

FINAL REPORT
OF ACCION GROUP, INC.
INDEPENDENT MONITOR
IN THE
TRACK B SOLICITATION

Attachment No. 12

**Arizona Public Service Company
Request for Proposals**

**PRELIMINARY DRAFT ONLY
SUBJECT TO REVISION**

**Arizona Public Service Company
Request for Proposals**

**Competitive Power Procurement
Commencing July 1, 2003**

March 21, 2003

Arizona Public Service Company

Request for Proposal

Notice of Intent to Respond

Capacity and Energy Delivery Proposal

This form should be received no later than 5:00 P.M. (MST), March 28, 2003 via facsimile (602) 250-3116, or e-mail to commodityauction@apsc.com

The undersigned respondent certifies that (he/she) has read this Request for Proposal, understands all terms, conditions, and intends to submit a proposal.

Proposal by _____

Company Name

Street Address _____

City

State

Zip Code

Mailing Address _____

City

State

Zip Code

Contact Numbers (_____) _____ / (_____) _____

Phone Number

Fax Number

E-mail Address _____ @ _____

Signature _____ / _____

Date

Signed by _____

Arizona Public Service Company

Request for Proposal

Proposal Information

CAPACITY/ENERGY DELIVERIES BEGINNING JULY 2003

I. Purpose and Scope

Arizona Public Service Company ("APS") issues this Request for Proposal ("RFP" or "RFP Process") to solicit competitive proposals ("Proposals") for electric capacity and energy to meet a portion of the APS Retail Network Load. The purpose of this RFP is to solicit Proposals for capacity and energy in compliance with the Arizona Corporation Commission's ("ACC") Track B Process which provides in part that APS will acquire certain capacity and energy needs through a competitive bid process.

II. APS is a public service corporation with retail load in eleven (11) counties in Arizona, with approximately 60-70% of such load located in the Phoenix metropolitan area.

ATTACHMENT 1 to this RFP is a detailed Term Sheet specifying the products to be solicited. **ATTACHMENT 1** is incorporated in and by this reference made a part of this RFP.

III. Changes to RFP, Schedules and Addenda

APS reserves the right to revise, suspend, or terminate this RFP Process and any schedule related thereto at its sole discretion without liability to persons or entities responding to this RFP ("Respondents"). APS will communicate in writing (via hard copy, facsimile, or e-mail) to prospective Respondents information regarding the status of this RFP Process, including any and all changes and addenda to this RFP or attendant schedules.

IV. Quality of Credit

Credit quality of the Respondent or the Respondent's guarantor and the form of guaranty and letter of credit, if required, are important factors in the selection process. APS shall utilize the better of the published credit ratings from Standard & Poor's Ratings Group ("S&P") and Moody's

Investor Services, Inc. (“Moody’s”) for long term senior unsecured debt to determine a Respondent’s, or the Respondent’s guarantor’s, credit rating. Such published credit rating will be used to determine the amount of credit support required. APS will perform an independent credit analysis on every Respondent who is not rated or whose guarantor is not rated by at least one of these ratings agencies. Such internal and agency ratings will be used in a non-discriminatory manner to determine the creditworthiness and required credit support of each bidder. Credit support will include the Independent Amount, as described in the EEI Agreement, the enabling agreement for any transaction. It will also include the appropriate collateral threshold. Awarding of this RFP will be conditional upon full satisfaction of any APS credit support requirements. If a Respondent would like to propose enhancing its rating through third-party credit support, please inquire through the website.

V. Respondent's Qualifications

APS will consider Proposals from electric utilities (e.g. investor-owned, municipal, co-operative, or tribal), independent power producers, qualifying facilities, exempt wholesale generators, or electric power marketers who have received certification as such by the Federal Energy Regulatory Commission (“FERC”).

Each Proposal must include the most current Securities and Exchange Commission (“SEC”) Form 10-K and 10-Q reports of any Respondent or its guarantor subject to SEC filing requirements, including a list, with names, addresses and other electric generation and transmission activities of all equity participants having 10% or greater ownership interest in the system or facilities from which power is to be supplied to APS.

Any Respondent or guarantor not subject to SEC filing requirements should provide as soon as practical, its most recently issued statement of financial condition, including balance sheet, income statement, cash flow statement and complete footnotes, with (if available) an unqualified statement certified by a nationally recognized certified public accounting firm for the 3 most recent fiscal years, and its most recent unaudited interim statement. For a more complete list of credit information requested, please refer to the [Important Credit Announcement](#) on the website.

VI. Credit Support

Up to three forms of credit support may be required of each successful Respondent:

- a) Guaranty – If a Respondent would like to be evaluated on the basis of a parent, affiliate, or third-party’s credit ratings or financial statements, a proposed guaranty format must be submitted with the response to this RFP. If the form of guaranty is not in a form acceptable to

APS at its sole discretion, both parties agree to attempt to negotiate a mutually acceptable form in good faith. If such guaranty is required to satisfy minimum credit criteria, an executed guaranty in a form acceptable to APS is a condition to final acceptance of an offer. If the guaranty amount is less than Respondent's collateral threshold amount (see the "Performance Assurance" discussion below), then the collateral threshold amount shall be the guaranty amount.

- b) Independent Amount ("IA") – Commensurate with the requirement that power procured under this RFP be supplied from a highly reliable supplier and to help mitigate our costs in the event that a Respondent defaults on its obligations, IA in the form of a Letter-of-Credit ("LOC") or a cash deposit will be required for all Respondents who do not have a rating of BBB or better by S&P or Baa2 or better by Moody's. If unrated by both agencies, a Respondent's APS-determined internal rating will be used to establish the need for a Respondent's IA. The following matrix shall be used in determining the appropriate IA for fixed price supply:

Credit Rating (S&P/Moody's) (better rating shall apply)	Independent Amount Required
BBB / Baa2	None
BBB- / Baa3	\$ 2.50 / Mwh
BB- to BB+ / Ba1 to Ba3	\$ 3.00 / Mwh
B- to B+ / B1 to B3	\$ 3.50 / Mwh
Below B- / Below B3	\$ 4.00 / Mwh

For capacity and energy contracts with variable MWh's, the number of MWh's in the term of the agreement will be calculated using the maximum capacity in MW of the contract awarded and any estimated capacity factor for the product(s) bid. The IA is a requirement separate from the potential requirement of a guaranty. Cash deposits will be held in an interest-bearing segregated account with the interest amount payable to the Respondent. LOCs must be essentially in the form of Exhibits A and B. The issuing bank must be rated A- or better by S&P or A3 or better by Moody's and have stockholder's equity of at least USD \$3,000,000,000 as of 12/31/2002. Respondent is responsible for the cost of any such LOC. The required IA will be reviewed every 6 months from the commencement of power deliveries and will be reduced to reflect the remaining amount of anticipated power to be delivered under the agreement with Respondent. In the event that a Respondent with an initial rating of at least BBB / Baa2, and thus a Respondent who is not initially required to post an IA, experiences a ratings downgrade to BBB- / Baa3 or below before it has completed its contractual obligations, that Respondent will be required to immediately supply the appropriate IA based on the undelivered amount of power and/or capacity. Similarly, if a Respondent has been required to post an IA, and experiences a ratings downgrade sufficient to require an increased IA, that Respondent will be required to immediately supply the

appropriate IA based upon its revised credit rating and the corresponding undelivered amount of power and/or capacity. Conversely, if a Respondent which has posted an IA experiences a positive ratings upgrade APS will return to the Respondent the amount (if any) in excess of the appropriate IA held by APS based upon its revised credit rating and the corresponding undelivered amount of power and/or capacity.

The IA matrix above is for fix priced forward sales of energy or capacity, including unit contingent sales. Additional matrixes are being developed for options and dispatchable supply. Index priced term sales and basis exchanges may not require an IA. APS reserves the right to require an IA for other products and non-conforming bids based on the market price sensitivity of the particular product or bid.

- c) Performance Assurance (“PA”) – Commensurate with the requirement that power procured under this RFP be supplied from a highly reliable supplier and to limit the amount of credit risk that APS may have with any individual supplier, PA in the form of a LOC or a cash deposit will be required if at any time after the execution of the Agreement, the termination payment that would be due APS in the event of a supplier default (as determined by APS) exceeds the collateral threshold. The amount of the collateral threshold is determined according to the following matrix (the better rating shall apply):

Credit Rating (S&P/Moody’s) (better rating shall apply)	Collateral Threshold
AA- / Aa3 or better	\$ 100 Million
A- to A+ / A3 to A1	\$ 50 Million
BBB+ / Baa1	\$ 20 Million
BBB / Baa2	\$ 10 Million
BBB- / Baa3	\$ 5 Million
Below BBB- / Below Baa3	Zero

Such PA, if required, would be in addition to a guaranty and/or Respondent’s IA. Cash deposits will be held in an interest-bearing segregated account with the interest amount payable to the Respondent and will be available to APS only upon the occurrence of an event of default by Respondent. LOCs must be essentially in the form of Exhibits A and B. The issuing bank must be rated A- or better by S&P or Fitch or A3 or better by Moody’s and have stockholder’s equity of at least USD \$3,000,000,000 as of December 31, 2002.

- d) APS will provide identical Performance Assurances, and certain related credit support requirements, for Respondents which at the time of execution of the contract have an A- or better rating from S&P or a A3 or better rating from Moody’s.

VII. Notification of Intent to Respond

In order to identify persons or entities interested in submitting a Proposal, and to assure that all those having such an interest receive any subsequent information distributed in the Proposal Process, interested parties, as a condition to submitting a Proposal, must submit via e-mail or FAX a Notification of Intent to Respond ("Notification"), a signed confidentiality agreement and certification by an officer of the Respondent (which are both available on the website) consistent with the recent order relating to the same by the ACC on or before 5:00 P.M. MST on Friday, March 28, 2003. The form for the Notification is part of the RFP Package. Proposals received from Respondents who have not timely submitted the Notification will be returned unopened.

VIII. Proposal Content and Submission Instructions

- A. In addition to the information described elsewhere in this RFP, all Respondents must include as part of their Proposal all information described in this RFP (which will be provided in a Proposal Response Form at a later date).
- B. Proposals that do not contain all required information or do not fully reflect the specifics of the Term Sheet may not be considered at APS's sole discretion. In addition to the required information, Respondents should include with their Proposals all information requested by APS that may be needed for a thorough understanding or evaluation of their Proposals.
- C. Respondents shall submit three (3) hard copies of the original proposal and one (1) "wet" original signature with evidence satisfactory to APS that the signatory has full authority to bind the Respondent to all of the terms and conditions contained in the Proposal. **APS will not accept Proposals via email, facsimile, or other electronic means. Only sealed Proposals will be accepted.**
- D. Complete Proposals (whether for Group A or Group B Proposals), including all exhibits, and excluding only fixed pricing if applicable to a Proposal, must be received on or before 5:00 p.m. (MST) on Friday, April 4, 2003, at the address below. **All Proposals must expressly confirm that the pricing and terms and conditions of the Proposal will be binding and held open in the manner described in Paragraph F below. APS will not accept late Proposals or Proposals delivered by e-mail, facsimile, or other electronic means.**

Tom Carlson
Head of Trading
Arizona Public Service Company
400 N. 5th Street- MS 9831
Phoenix, AZ 85004
602/250-3116 FAX
602/250-3199 FAX
602/250-3719 FAX
e-mail: commodityauction@apsc.com

- E. Fixed pricing for all Proposals must be received on or before 5:00 p.m. (MST) on Thursday April 24, 2003, at the above-address. **All Proposals must expressly confirm that the pricing and terms and conditions of the Proposal will be binding and held open in the manner described in Paragraph F below.** Again, APS will not accept late Proposals or Proposals delivered by email, facsimile, or other electronic means.
- F. Except as specified in this paragraph, all Proposals including terms, conditions, and pricing, are binding through the close of business (5:00 p.m. MST) Thursday, May 22, 2003. If Respondent submits a fixed price Proposal, the Respondent may withdraw that Proposal in writing received by APS (either through hand-delivery or facsimile) no later than 5:00 p.m. (MST) Friday, April 25, 2003. If Respondent submits a fixed price Proposal and does not timely withdraw that Proposal as described above, the pricing for that Proposal will remain binding through 12:00 p.m. (MST) Monday, April 28, 2003, thereafter which the pricing will no longer be binding.
- G. On April 28, 2003, APS will announce a short-list and immediately begin accepting Proposals (whether from Group A or Group B bids). Beginning at that time, and through the end of the bidding process on May 22, 2003, APS may also contact Respondents to negotiate, if appropriate, any Proposals on the short-list. Proposals from the short-list will be accepted on a rolling basis, commencing April 28, 2003 through May 22, 2003.
- H. Proposals shall be delivered to the above address on or before the specified due date and hour, and shall be enclosed in a sealed envelope. On the envelope, Respondent shall indicate "APS RFP." Any Proposals received after the scheduled date and time will be returned unopened.
- I. Prices and dollar figures must be clearly stated in \$US.

- J. None of the material received by APS from Respondents in response to this RFP will be returned. All Proposals and exhibits will become the property of APS
- K. All inquiries and other communications relating in any manner to this RFP must be directed in writing or by facsimile or e-mail to the APS contact (See Item F).

IX. Confidentiality

APS will require all parties to execute the Confidentiality Agreement, which is available on the website, and will also execute the Confidentiality Agreement upon receipt of signed Confidentiality Agreement from the Respondent. APS will take reasonable precautions and use commercially reasonable efforts to protect any claimed proprietary and confidential information contained in a Proposal (excluding the environmental information referenced in Exhibit C); provided that such information is clearly identified by the Respondent as "PROPRIETARY AND CONFIDENTIAL" on the page on which proprietary and confidential material appears. APS will release such information, (1) to its external contractors for the purpose of evaluating Proposals but such contractors will be required to observe the same care with respect to disclosure as APS and to others who have a need for such information for purposes of evaluating the Transaction, including but not limited to the ACC, its employees, staff, consultants and/or agents and the independent monitor(s) who has been assigned by the ACC to review the Bidding Process, and its employees, staff, consultants and/or agents. or (2) if APS is compelled to disclose such information (or portions thereof) (i) pursuant to subpoena or other court or administrative process; (ii) at the express direction of any agency with jurisdiction over APS, or (iii) as otherwise required by law. If APS becomes legally compelled to disclose any of the confidential information, APS will provide Respondent with written notice. APS holds no duty or requirement to Respondent to withhold such information if it is so requested as described in Section (2) above. Under no circumstances will APS, or its directors, management, employees, agents or contractors be liable for any damages resulting from the disclosure of Respondent's claimed confidential information during or after the solicitation process.

X. Capacity, Energy and Other Resource Information

In addition to information required elsewhere in this RFP, all Proposals shall contain information on product types as specified in the Term Sheet.

XI. Site/Facility Requirements for Proposed Generating Facilities

If Respondent's Proposal includes power from generating projects, Respondents shall provide the following information where applicable:

- A. If new, projected date for completion of construction, testing and commercial operation
- B. If new, projected schedule for acquisition of necessary transmission and interconnection service.
- C. If new, level of product commitments made in the event generating facility does not go commercial as scheduled.
- D. Access to physical plant site for ACC staff inspection pursuant to the Opinion and Order on Generic Proceedings Concerning Electric Restructuring Issues (Track B), Decision Number: 65743
- E. Certain minimum environmental requirements as set forth on Exhibit C (please note that such information will not be treated confidentially).
- F. Demonstration of adequate fuel supply and transport.

XII. Affiliate Bidding and Evaluation Procedures

APS affiliates may submit Proposals in response to this RFP subject to the same restrictions and qualifications as non-affiliates.

XIII. Proposal Evaluation

- A. Respondents shall include sufficient detail to evaluate all costs associated with the Proposal(s). Respondents are advised that price will be a major factor in APS's evaluation, as well as credit and contract considerations, reliability, deliverability and other criteria including but not limited to those detailed in the Staff Report on Track B, dated October 25, 2002. In addition, Proposals will also be compared and evaluated in terms of other non-price characteristics of each submittal as well. Therefore, the lowest price submittal may not be selected. The evaluation of submittals will be based on the information provided by the Respondent with special emphasis on source of supply, scheduling procedures, and other actions Respondent submits to use in maximizing its economic value to APS' retail customers and minimizing risk to those Customers.
- B. APS reserves the right to negotiate after submission of a Proposal with a Respondent, or with more than one Respondent. In the event negotiations with a Respondent or Respondents do not produce a final and fully executed contract satisfactory to APS, APS reserves the right to pursue any and all other resource options available to it.

- C. APS, at its sole discretion, shall evaluate responsive Proposals and select for further review and negotiation a Proposal or Proposals, if any, that provide the most value to APS retail customers.
- D. Proposals may be combined with other Proposals, at APS's sole discretion.
- E. APS shall determine at its sole discretion the value to APS customers of any and/or all Proposals.
- F. APS shall evaluate all Proposals in terms of price and non-price attributes and reject any Proposal that, in APS's sole discretion:
 - 1) Does not meet the minimum requirements set forth in the RFP;
 - 2) Is not economically competitive with other Proposals; or
 - 3) Is submitted by Respondents who are determined by APS, in its sole discretion, to have insufficient creditworthiness, insufficient financial resources, and/or insufficient technical qualifications to provide dependable or reliable service.
- G. APS reserves the right, without qualification and in its sole discretion, to accept or reject any or all Proposals for any reason at any time after submittal without explanation to the Respondent, or to make an award at any time to a Respondent who, in the opinion of APS will provide the most value to APS retail customers. APS also reserves the right to make an award to other than the lowest price offer or other than the Respondent evidencing the greatest technical ability if APS, in its sole discretion, determines that to do so would result in the greatest value to APS' retail customers.
- H. APS, in its sole discretion, may decline to enter into an agreement with any Respondent, to terminate negotiations with any Respondent, or to abandon the RFP process in its entirety, at any time during the process.
- I. Those Respondents who submit Proposals, do so without legal recourse against APS, or its directors, management, employees, agents or contractors based on APS's rejection, in whole or in part, of their Proposal or for failure to execute any agreement tendered by APS. APS shall not be liable to any Respondent or to any other party, in law or equity, for any reason whatsoever relating to APS's acts or omissions arising out of or in connection with the RFP.

- J. Respondents who submit Proposals for products other than firm products will be required to submit a corresponding minimum availability factor with their bid for all power and/or capacity which they propose to provide APS under this RFP (please see the Term Sheet for additional detail).
- K. Proposals for delivery of power and/or capacity on or after January 1, 2006 will be subject to the Regulatory Approval Provision of Article 3.4 of the EEI Agreement.
- L. Respondent shall be liable for all of its costs, and APS shall not be responsible for any of Respondent's costs, incurred to prepare, submit, or negotiate its Proposal, a contract or any other activity related thereto.
- M. Respondents must disclose if they intend to, or have acquired capacity and/or energy from APS or an APS affiliate during the term of the proposed Bid Solicitation and Contract.
- N. APS reserves the right, at any time, to establish a minimum and/or maximum of capacity or energy to be acquired from any one Respondent.

Selection and elimination of Proposals and subsequent notification of Respondents at all stages of the evaluation will remain entirely at APS's discretion. APS's intent is to notify Respondents of those Proposals that are eliminated from further consideration under this solicitation within a reasonable amount of time, which will be determined by APS in its sole discretion.

XIV. Definitive Agreement

The contract format for this RFP is a modified Edison Electric Institute's Master Power Purchase and Sale Agreement ("EEI Agreement"), which is currently available on the APS Commodity Auction website. Any comments or questions from a Respondent on APS's amended EEI Agreement shall be submitted through the APS Commodity Auction website prior to March 20, 2003, and will be reviewed and considered by APS.

As soon as practicable after APS completes its analysis of Proposals and completes negotiations as appropriate, it expects Respondent to execute the EEI agreement. Failure of a Respondent to promptly after notification of a winning bid execute a definitive written agreement will, in APS's sole discretion, result in rejection of the Proposal. The definitive agreement shall not bind APS until both Parties execute it, and if appropriate, the agreement is approved or otherwise authorized by the ACC.

XV. Collusion

By submitting a Proposal for APS in response to this RFP, the Respondent certifies that the Respondent has not divulged, discussed, or compared its Proposal with other Respondents and has not colluded whatsoever with any other Respondent or parties with respect to this or other Proposals.

XVI. Compliance with Regulations

Each Respondent shall ensure that its Proposal is in full compliance with all applicable Federal, State and local laws, rules, regulations or other requirements.

XVII. Bid Solicitation Fee

As recommended by the ACC, the cost of conducting each bid solicitation can be borne by qualified Respondents who submit Proposals in this and future auctions. As such, a bid fee of \$10,000 per Respondent will be required with this RFP in order to qualify the Respondent for consideration. In the event bid fees collected exceed incremental costs by APS to conduct this auction, such excess shall be refunded to all non-winning Respondents on a pro rata basis up to the amount of fee paid by each Respondent

RFP SCHEDULE

The RFP process shall proceed in accordance with the following schedule:

Phase I – Calendar 2003	<u>Day of Week</u>	<u>Date</u> <u>(except as noted, close</u> <u>of business – 5:00</u> <u>p.m. MST)</u>
Website Rollout/Draft RFP and EEI	Friday	February 28, 2003
First RFP Bidders Conference	Wednesday	March 5, 2003
Final Date for Written Comments and/or Questions on RFP and EEI Master Agreement	Wednesday	March 19, 2003
Second Bidders Conference	Wednesday	March 19, 2003
Final RFP and EEI Master Agreement Issued	Friday	March 21, 2003
Notice of Intent to Respond to RFP Due	Friday	March 28, 2003
Sealed Proposal(s) Due Date for Group A Bids and Group B Bids (excluding <u>only</u> pricing for fixed price Proposals)	Friday	April 4, 2003
Due Date for Submitting Pricing for Fixed Price Proposals for Group A Bids and Group B Bids	Thursday	April 24, 2003
Withdraw Deadline for Fixed Price Group A and Group B Proposals	Friday	April 25, 2003
Begin to Notify Respondents of Short List (includes both Group A and Group B Bids)	Monday	April 28, 2003 (on or before Noon, 12:00 p.m. MST)
Notification of Initial Successful Respondent(s) for Fixed Price Group A Bids and Group B Bids	Monday	April 28, 2003 (on or before Noon, 12:00 p.m. MST)
Final Evaluation Complete/Successful Respondent(s) Notification for All Group A and Group B Bids		April 28, 2003 through May 22, 2003
Estimated Commencement of Service Under Contract	Tuesday	July 1, 2003

Proposal Response Forms
Arizona Public Service Company
Request for Proposal
Capacity & Energy Delivery Proposal

The undersigned hereby certifies that this proposal is genuine and not sham or collusive or made in the interest of or on behalf of any person not herein named, and that the undersigned has not directly or indirectly induced or solicited any other respondent to put in a sham bid or any other person, firm or corporation to refrain from submitting a proposal, and that the undersigned has not by any manner sought by collusion to secure for himself an advantage over any other respondent.

The undersigned respondent certifies that (he/she) has read this Request for Proposal understands it is proposing in full compliance with all terms, conditions, or other inclusions of the Request for Proposal.

Proposal by _____
Company Name

Signature _____

Signed by _____
Name Title

Federal Employer's Identification Number of Firm _____

The demonstrated competence and professional qualifications of all respondents will be considered to assure that these services are engaged by APS on the basis of competence and qualifications at fair and reasonable prices.

Name of person in your organization whom we should contact for questions, details, information and/or order placement.

Name Area Code/Phone Number

Please advise us of the following:

Mailing Address _____

Street Address _____

Phone Number ____ (____) _____

Fax Number ____ (____) _____

E-mail Address _____

Arizona Public Service Company
Request for Proposals - Attachment 1

TERM SHEET

Terms APS will consider Proposals that begin delivery on July 1, 2003

- Minimum term for qualified Proposals will be for one quarter in a calendar year.
- APS prefers bids based on the term products listed below but will review and evaluate non-conforming bids that the Respondent believes can meet APS's energy and capacity needs.

Group A Term Product(s)

- On Peak 6x16 - HE 0700 to 2200 PPT - 6 days/week from January 1 through December 31 of each year.
- Off Peak 6 x 8- HE 2300 to HE 0600 PPT - 6 days/week plus all day Sunday from July 1 through September 30 in 2003, and June 1 through September 30 of each subsequent year.
- Summer Super Peak - HE 1300 to 2000 PPT - 7 days/week from July 1 through September 30, 2003 and from June 1 through September 30 of each subsequent year.
- Daily Call Options - Up to 200 MW of firm, fixed price capacity for On Peak 6x16, by month from July 1 through September 30 of each subsequent year.
- Winter Super Peak – HE 0800 to 1100 MST and HE 1800 to 2100 MST from November 1 through March 31 of each subsequent year.
- Although APS is presently more interested in Proposals for the above products up to and through the calendar year 2006, Respondents may submit Proposals for Group A Term Products for the years ending before and after 2006.

Group B Term Product(s)

- Dispatchable (including Capacity, System Firm and/or Unit Firm Products– Beginning July 1, 2003 through September 30, 2003, and from June 1 through September 30 of each subsequent year.
- Energy Swaps – energy/capacity swaps between delivery points.
- Heat Rate – price of energy is tied to natural gas prices.
- Index – energy priced to a daily or monthly price index.
- Although APS recommends Proposals for the above products up to and through the calendar year 2006, Respondents may submit Proposals for Group B Term Products for the years ending before and after 2006.

Group B RMR Product(s)

- Dispatchable capacity/energy to meet:
 1. July through September 2003: 835 MW of firm capacity a Firm (LD) product up to 518 Hours of operation for Phoenix load.
 2. June through September 2004: 956 MW of firm capacity a Firm (LD) product up to 590 Hours of operation for Phoenix load.
 3. June through September 2005: 1024 MW of firm capacity a Firm (LD) product up to 656 Hours of operation for Phoenix load.
 4. July through September 2003: 144 MW of firm capacity a Firm (LD) product up to 1066 Hours of operation for Yuma load.
 5. June through September 2004: 148 MW of firm capacity a Firm (LD) product up to 974 Hours of operation for Yuma load.
 6. June through September 2005: 160 MW of firm capacity a Firm (LD) product up to 1196 Hours of operation for Yuma load.

Additional Requirements

1. If Respondent provides a Proposal for Capacity, System Firm and/or Unit Firm products (as defined in the EEI Agreement), Respondent must also provide a minimum Equivalent Availability Factor as determined in the NERC Generating Unit Availability Data System (“GADS”) (the “Availability Factor”) for each period for each month during the Transaction. In this regard, if a Party is proposing to supply a Capacity, System Firm and/or Unit Firm product for the Summer 2003 Delivery Period, that Party must also identify a specific Availability Factor which will have a minimum guaranteed delivery level for each proposed month during the Delivery Period (which shall be further broken down into Off-Peak, On Peak, and Super-Peak). If the Respondent falls below the minimum Availability Factor, it will be responsible for all damages and costs pursuant to the Accelerated Payment of Damages provision as described in Article 4.1 of the EEI Agreement, incurred by APS in obtaining replacement power and/or capacity up to that minimum Availability Factor. For example, if a Party is proposing a Unit Firm, System Firm or Capacity product for delivery during the months July through September of 2003, it must identify an Availability Factor for each month and period during that term (e.g., for July 2003 – Off Peak Availability Factor-85%; On-Peak Availability Factor-95%; Super-Peak Availability Factor-100% / For August, 2003 – Off-Peak Availability Factor-85%; On-Peak Availability Factor-95%; Super-Peak Availability Factor-100% / for September 2003 – Off Peak Availability Factor-85%; On-Peak Availability Factor-95%; Super-Peak Availability Factor-100% / etc.)
2. If Respondent provides a Proposal for Capacity, System Firm and/or Unit Firm products (as defined in the EEI Agreement), Respondent must agree not to plan any scheduled outages for the period June 1 through September 30 throughout the term of its Proposal.

3. If Respondent provides a Proposal for Capacity, System Firm and/or Unit Firm products (as defined in the EEI Agreement), Respondent shall with its Proposal acknowledge that it will: consult APS when scheduling or planning for outages and minimize the cost impact on APS; consult with APS on its short term and long term plans for scheduled outages; and operate the units consistent with Reasonable Utilities Practices. Unplanned outages are not excused from the minimum Availability Factor requirements discussed above.
4. Respondent must provide balanced schedules to the control area and must schedule in conformance with all NERC Guidelines.
5. A Delivery Point(s) must be specified for each bid (see Delivery Point below).

Delivery Point(s)

- Respondents must identify the Delivery Points at which they will deliver the products and reflect maximum amounts at each Delivery Point. For purposes of this RFP, all transmission related charges to move power to the Delivery Points are the responsibility of the Respondent.
- Delivery Points are: Westwing, Pinnacle Peak 230, Pinnacle Peak 345, Liberty, Palo Verde/Hassayampa, Four Corners, Mead, Navajo, Rudd, Kyrene, North Gila, Cholla, West Phoenix, Ocotillo, Yuma and Saguaro. Please refer to the APS Network Transmission Assessment study for delivery point capacity.
- Delivery to other feasible points may impose additional costs on APS, which will be evaluated when considering a Proposal to any point other than those noted above.
- Respondents must fix the Delivery Point(s) for the term of the Agreement.
- Respondent must provide satisfactory evidence of its ability to deliver power to the designated Delivery Points on a firm basis.

Price

- APS prefers Group A products be proposed as either fixed price products or index triggered products that allow APS to convert those products to fixed prices during the evaluation process.

- APS prefers Group B products can be proposed as either fixed price products, index products, or index triggered products that allow APS to convert those products to fixed prices during the evaluation process.
- Respondent is responsible for all arrangements and all costs to the Delivery Point specified, including the cost of all ancillary services that are not self-supplied. APS, as the control area operator, will be the default provider for ancillary services that must be purchased by Respondent, if not otherwise provided in the proposal. Ancillary services to the successful bidder will be provided by APS on a non-discriminatory basis in accordance with applicable FERC requirements.
- Ancillary services, including imbalance, will be priced to Respondent at APS tariffed rates. Respondent will also be responsible for the proportionate share of any costs associated with APS' participation in a regional sharing group.

Environmental Consideration

- Each Respondent will be required to provide the environment impact data set forth on Exhibit C.. The information is provided either based on actual data or permitted values. The affected population item of people living within the 50 miles radius of the plant generating electricity should be based on most recently available census data. Data regarding environmental performance of the generating company and its affiliates must be provided from the units that (to the best of Respondent's knowledge) will or could be supplying energy or capacity under the Respondent's proposal and must include the last five years of emissions data.

Market Consideration

- Each Respondent will be required to provide a copy of the market power analysis used by such provider to support its market rate authority from FERC.

Form of Letter-of-Credit

[On Issuing Bank Letterhead]

Irrevocable Standby Letter of Credit No. _____

To: Arizona Public Service Company

400 N. Fifth Street
 Phoenix, Arizona 85004
 Attn:

Ladies and Gentlemen:

We hereby issue in your favor our Irrevocable Stand-By Letter of Credit No. _____ in the amount of \$ _____ (U.S. Dollars) (_____ Million Hundred _____ Thousand and No/100 Dollars), account of Arizona Public Service Company ("Beneficiary"), available by your sight draft in the form attached hereto as Exhibit A executed by an individual as described below on us at any time or from time to time during the validity of this credit in whole or in part and accompanied by the original of this Letter of Credit:

SPECIAL INSTRUCTIONS:

- Partial Drawings Permitted. In the case of a partial draw, this Letter of Credit will be endorsed effective as of the payment date by us to you to reflect the amount of the partial draw and will be returned within 24 hours to the signer (if presentation is made by the signer) and otherwise by next-day delivery to the Beneficiary.

- All documents must show this Letter of Credit number.

- Payment under this Letter of Credit shall be made by wire transfer of immediately available funds into the following account:

We hereby engage with you that all drafts drawn in strict conformity with the terms and conditions of this Letter of Credit will be duly honored upon presentation of documents as specified if presented at _____ on or before _____, _____, the expiry date of this Letter of Credit. If a drawing in respect of payment is made by you hereunder at or prior to Noon (_____ time) on a business day, and provided that such drawing and the documents presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you as provided herein of the amount specified, in immediately available

funds, on the same business day. If a drawing in respect of payment is made by you hereunder after Noon (_____ time) on a business day, and provided that such drawing and the documents presented in connection therewith conform to the terms and conditions hereof, payment shall be made to you as provided herein of the amount specified, in immediately available funds, on the next succeeding business day.

If a demand for payment made by Beneficiary hereunder does not, in any instance, conform to the terms and conditions of this Letter of Credit, we will give Beneficiary prompt notice thereof, stating the reasons thereof and that we are holding any documents at Beneficiary's disposal or are returning the same to Beneficiary, as Beneficiary may elect. Upon being notified that such demand was not effected in accordance with this Letter of Credit, the Beneficiary may attempt to correct any such non-conforming demand for payment.

This Letter of Credit sets forth in full the terms of our undertaking, and this undertaking shall not in any way be modified, amended, or amplified by reference to any document, instrument or agreement referred to herein (except the Uniform Customs, as hereinafter defined) or in which this Letter of Credit is referred to or to which this Letter of Credit relates, and any such references shall not be deemed to incorporate herein by reference any document, instrument or agreement.

This Letter of Credit is transferable in its entirety to any person succeeding to Beneficiary's interest under the _____ Agreement, dated as of _____, 2003, as certified by Beneficiary to us, and such transfer shall be effected by amendment of this Letter of Credit to reflect the new beneficiary.

This Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practices for Documentary Credits (1993 revision), Publication No. 500 of the International Chamber of Commerce (the "Uniform Customs"), and, to the extent not inconsistent therewith, the laws of the State of Arizona. Any failure by Beneficiary to draw upon this Letter of Credit shall not cause this Letter of Credit to be unavailable for any future drawing.

As used herein, the term "Business Day" shall mean a day on which we are open for the purpose of conducting a commercial banking business at our offices in _____.

By:
Name:
Title

FORM OF SIGHT DRAFT

DATE:

TO:

Check the applicable entry:

_____ An Event of Default, as defined in that certain _____ Agreement between Beneficiary and _____, has occurred and is continuing.

_____ The Letter of Credit shall expire before the term of the _____ Agreement and such Letter of Credit has not been extended or replaced in accordance with the terms of the _____ Agreement.

In accordance with the terms of the Letter of Credit issued by you to our favor dated _____, we hereby demand payment to the order of Arizona Public Service Company in the amount of \$_____.

Arizona Public Service Company

By:
Name:
Title:

ENVIRONMENTAL INFORMATION

Each Respondent must provide the following environmental impact information in summary:

1. The emission, consumption and other information requested in the attached template. The data must be provided based on actual emissions data or, if actual emissions data is not available, maximum permitted values. The affected population living within a 50 miles radius of the generating facility should be based on the most recent census data. Because emissions from a facility depend not only on permit limitations, but also on operating performance and permit compliance, each Bidder also must provide information regarding environmental performance for the past five years, which means data regarding any fines assessed against the generating facility, the generating company and any affiliated generating companies.

2. A detailed executive summary, with results, of any and all air quality emissions modeling prepared for or relating to the generating facility.

3. A detailed executive summary with results, of any and all surface or groundwater modeling that was performed for or relating to the generating facility, including a summary of any drawdown calculations.

4. A successful Respondent must make available to APS upon request copies of any modeling described in items 2 and 3 and any additional environmental data necessary for APS to comply with environmental requirements in Decision No. 65743.

Environmental Matrix for Bidders

Item	Category	Respondent Value	4	3	2	1
1	CO2 (lb/MWH)		0 - 500	500 - 1,000	1,000 - 2,000	> 2,000
2	NOx (lb/MWH)		0 - 1.0	1.0 - 5.0	5.0 - 10.0	> 10.0
3	SO2 (lb/MWH)		0 - 1.0	1.0 - 5.0	5.0 - 10.0	> 10.0
4	PM (lb/MWH)		0 - 0.1	0.1 - 0.25	0.25 - 0.50	> 0.50
5	CO (lb/MWH)		0 - 0.25	0.25 - 0.50	0.50 - 1.0	> 1.0
6	VOC (lb/MWH)		0 - 0.025	0.025 - 0.050	0.050 - 0.100	> 0.100
7	Hg (lb/GWH)		0 - 0.005	0.005 - 0.010	0.010 - 0.100	> 0.100
8	Water Consumption (gal/MWH)		0 - 100	100 - 500	500 - 1,000	> 1,000
9	Primary Water Source		Effluent	Surface	Ground	Other
10	Population (within 50 miles)		0 - 10,000	10,000 - 100,000	100,000 - 1,000,000	> 1,000,000
11	Penalties (within last 5 years)		\$0 - \$25,000	\$25,000 - \$100,000	\$100,000 - \$250,000	> \$250,000